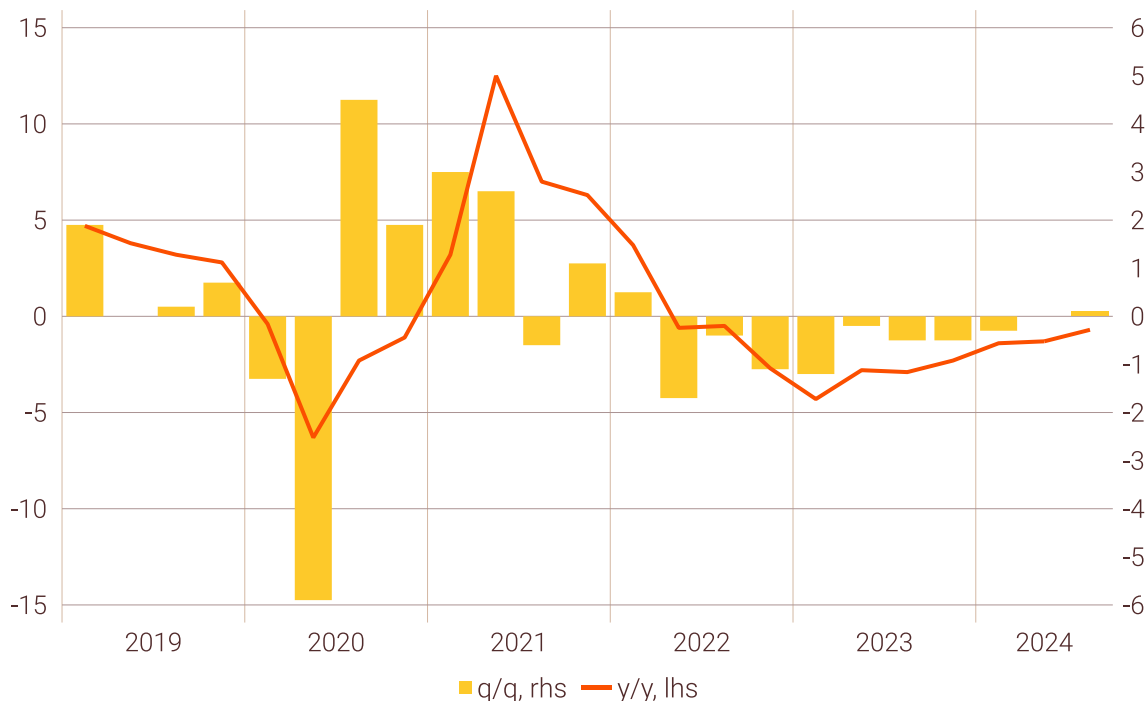


Estonian economy: still weak, but it is improving gradually

In Q3 2024, Estonian GDP dropped 0.7% y/y in real terms, while it increased 0.1% q/q (seasonally and working day adjusted - swda), according to the flash estimate of Statistics Estonia. The estimate met our expectations.

Real GDP

%, swda



Sources: Swedbank Research & Macrobond

- Estonia has left economic recession behind, based on the preliminary GDP flash estimate.
- Manufacturing output volume is still declining, while export of goods and services has turned to growth. Energy production, that contributed the most (roughly half) to the GDP decline in 2023, is improving.
- Despite real wages are growing already since the middle of last year and falling interest rates have brought some relief to the households with loans, retail trade volume is still falling. Swedbank card payments suggest that private consumption was weak in Q3.
- Economic confidence has made only minor improvement and is still below the long-term average.
- We forecast that the Estonian economy will continue to improve in Q4, but it will decline in the full year of 2024.
- Government fiscal consolidation is expected to reduce the GDP growth in 2025 and 2026, while improving foreign demand and falling interest rates will be a tailwind to the growth.

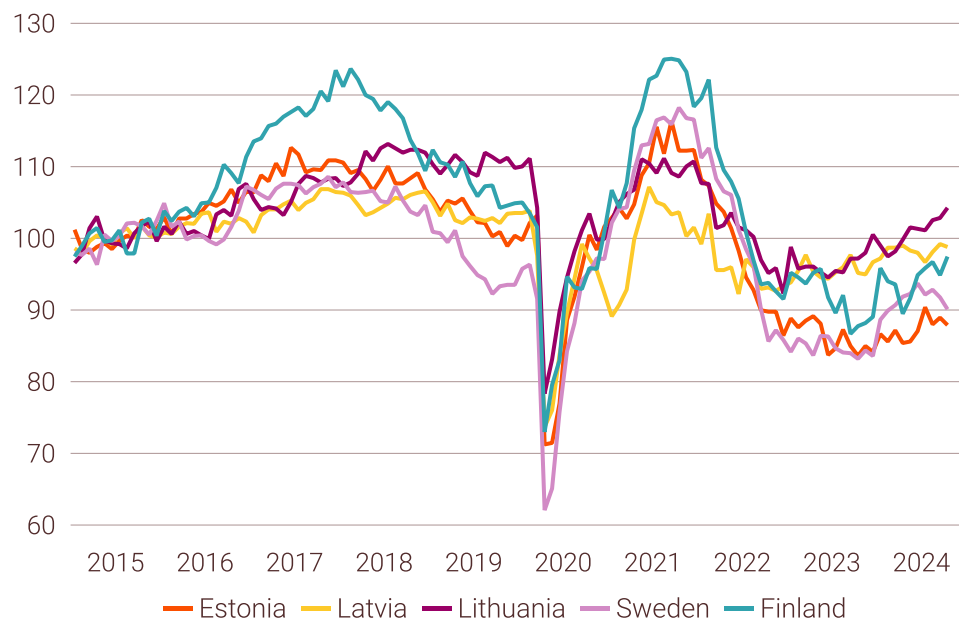
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Annual economic decline has slowed as export of goods and services has improved

Economic sentiment

Index, SA, 2015=100 (rebased)

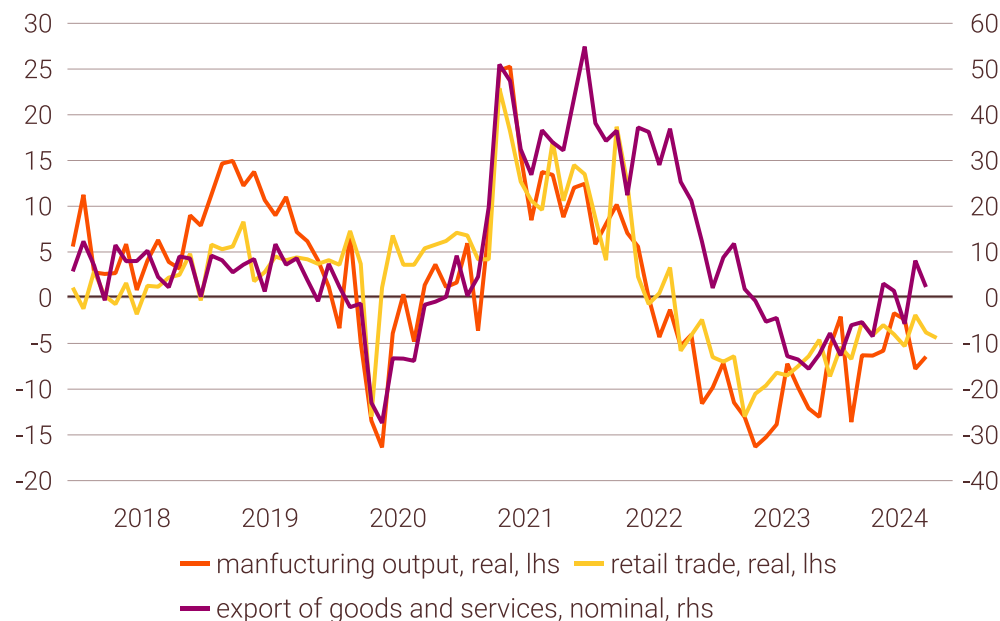


Sources: Swedbank Research & Macrobond

- The confidence of services and construction have been stable on a lower level in Estonia, industrial sector confidence have showed some very sluggish improvement, while consumer and retail confidence are still worsening.
- Despite real wages have been increasing for over a year now and the growth of old age pensions has exceeded inflation of the last five years, plus falling interest rates are decreasing households' debt obligations, private consumption is still weak. Retail trade volumes still declined in 3Q.
- Tax hikes (VAT, PIT and excises) will reduce net wages in real terms in 2025.

Manufacturing, exports and retail

y/y %



Sources: Swedbank Research & Macrobond

- The decline in the manufacturing output volume is still alarming. Despite the contribution of the wood sector in the decline of the manufacturing output volume is large (40%), the decline is still broad-based. Production volume of 60% of economic activities of the manufacturing sector declined in August, this year.
- At the same time, export of goods and services has turned to growth in nominal terms. Export of services has increased before, as well, while the decline in export of goods has now turned to growth (largely contributed by base effect).
- We expect that foreign demand for the Estonian exports is improving gradually.

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